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October 16, 1998

Office of State Budget
Attn: Karen Amos
1122 Lady Street, 12th Floor
Columbia, SC 29201

Dear Ms. Amos,

In accordance with Section 72.68 of the Fiscal Year 1998-99 Appropriation Act, I am submitting the Annual Accountability Report for the State Treasurer's Office for Fiscal Year 1997-98.

Our goal is to provide the most cost effective fiscal management of State and other custodial funds in conjunction with promoting savings and efficiency throughout this agency and State government. We developed our mission statement based on the specific services we perform. Accordingly, our program objectives and measures of performance were determined based on the services we provide.

If you have any questions, please contact me at 734-2648.

Very truly yours,

Michael Brunson
Comptroller

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EXECUTIVE SUMMARY

A brief summary of the operating results for each major division within the State Treasurer's Office is provided below, highlighting significant Statistics. We have also provided a brief overview of several other programs this office has been significantly involved with and will continue to do so during the next fiscal year.

Banking and Treasury Services

Cash receipts and cash disbursements processed were both approximately \$12.6 billion in Fiscal Year 1998. The number of electronic funds transfers (EFTs) increased slightly over the prior fiscal year to 1.1 million. We are continuing to pursue automation of vendor and other payments, working in conjunction with other state agencies.

Investments

General Fund earnings of \$70.8 million were up from the prior year's total of \$65.6. Earnings on SCRS funds of approximately \$1.4 billion for the fiscal year exceeded the actuarial benchmark in an amount more than sufficient to pay the cost of living adjustment for retirees for the year.

Debt Management

This office manages outstanding debt of nearly \$1.4 billion in general obligation bonds, revenue bonds, inter-governmental and other indebtedness for the State of South Carolina. The office processed debt service payments of approximately \$273 million for the fiscal year.

Unclaimed Property

More than \$4.7 million in unclaimed funds were returned to taxpayers during FY 1998. The amount paid surpassed the \$3.5 million paid last fiscal year and indicates the efforts to increase the amount of funds returned to South Carolinians have been successful.

Involvement in Other Activities

Transportation Infrastructure Bank

The Transportation Infrastructure Bank has approved a total of five regional projects totaling almost \$2 Billion. The financial plan calls for issuance of \$1.2 Billion in revenue and general obligation bonds. The first issue of \$275 Million was sold in competitive bid on October 7, 1998, at a true interest cost of 4.34%.

A low market interest rate environment resulted in a savings of \$25 to \$30 Million over the life of the bonds. This bond issue was to fund projects in Horry County. The next issuance is expected to be for York County projects.

Both the State Treasurer and Treasurer's Staff have had an integral role in the development of the financial plan for the Infrastructure Bank, in explaining this plan to the credit rating agencies and underwriting community, and in issuing the bonds. The State Treasurer's Office also will serve as the trustee on all Infrastructure Bank issues.

Investment of SCRS Funds in Equities

The enabling legislation for investing the SCRS funds was passed in the 1998 legislative session. The Equity Investment Panel called for in the constitutional amendment held its inaugural meeting on July 30, 1998. The Panel is involved in negotiating with a national consulting firm to help establish its initial asset allocation plan. The first stock purchase should occur in late 1998.

EXECUTIVE SUMMARY-(continued)

The State Treasurer's Office has been fully involved in the initial meetings of the Equity Investment Panel and in helping the Panel identify and retain its consulting firm. The Equity Investment Panel has adopted "Steps to Equity Investing" prepared by State Treasurer Eckstrom and his staff as its implementation plan.

Additional systems and accounting resources related to equity investment will be needed by the State Treasurer's Office in Fiscal Year 1999.

College Prepaid Tuition Plan

The first contracts are being offered for sale from September 30, 1998 until December 18, 1998. The State Treasurer's Office will be involved in the initial investment of program funds and has assisted in the development of policies and the procurement of vendors for the Plan.

The following pages provide further details regarding the current programs within this office.

OFFICE OF THE STATE TREASURER

MISSION STATEMENT

The State Treasurer's Office mission is to provide the citizens of the State of South Carolina with the most cost effective fiscal management of State and other custodial funds. We will promote savings and efficiency throughout this agency and State government in providing investment and debt management services, banking and treasury services, and management of the unclaimed property program.

Savings and efficiency are the driving forces behind the State Treasurer's leadership in recognizing savings and efficiency in State Government, providing financial advice to local governments and promoting personal savings and responsibility. The State Treasurer's Office Motto--"We Work for the Taxpayers"--is posted throughout the office in acknowledgment of the fact that we are public stewards with a sacred trust to make the most of taxpayers' and public resources.

ANNUAL ACCOUNTABILITY REPORT

Priority Rank: First (critical function)

Program Name: Banking and Treasury Services

Program Goals: Programs are managed in accordance with Sections 11-5-40 through 11-5-250 of the South Carolina Code of Laws, 1976, as amended, among other laws.

To serve as the State's Bank, receiving and disbursing funds from all sources, pursuant to legislative enactment and federal laws and regulations, in the most efficient and effective manner possible.

Program Objectives:

- Receive and disburse funds from all sources.
- Distribute shared revenue.
- Maintain adequate collateral to secure State funds deposited in financial institutions.
- Conduct detailed analysis of bank accounts throughout the State.
- Manage cash flow, in part, to optimize earnings for the State.
- To monitor and report on legislation affecting the State Treasurer's Office and financial matters.
- Communicate with members of the General Assembly, as necessary, to keep them informed about the financial impact of matters affecting their areas and the State.

Program Cost: \$1,528,034 State Funds

FTEs: 29

Performance Measures:

<u>Workload:</u>	<u>FY 1996-97</u>	<u>FY 1997-98</u>
Checks distributed	3,906,027	3,696,905
EFTs distributed	1,044,165	1,105,758
Other items processed (1)	159,998	163,768
Cash receipts	\$11,959,645,701	\$12,620,609,273
Cash disbursements	\$11,657,589,558	\$12,583,268,595
Manual STARS deposits (2)	74,166	136,720
ACH deposits (2)	4,137	8,317
Credit card automated deposits (2)	7,172	9,456
Main Street Investment Program banks	19	16

(1) Interdepartmental transfers and Treasurer's Receipts

(2) FY 1996-97 data for six months

ANNUAL ACCOUNTABILITY REPORT

Banking and Treasury Services (continued)

Efficiency:

Checks distributed/FTE	1,301,267	1,232,302
EFTS distributed/FTE	348,055	368,586
EFTs to Checks	.27	.30
ACH deposits to Manual STARS deposits	.15	.13
Other items processed/FTE	53,278	54,589

Outcome:

- The number of payments made electronically increased 6% from the prior fiscal year. The number of checks processed declined 5%, indicating a continued trend towards automated payments.
- All checks issued by the State Treasurer's Office were available for distribution within 24 hours of disbursement authorization.
- All shared revenues were distributed according to State Treasurer's Office policy between the 20th and 25th of the month in which distribution is required by statute.
- All deposits were properly collateralized without interruption.

Priority Rank: Second (critical function)

Program Name: Investments

Program Goals: Programs are managed in accordance with Section 11-9-660 of the South Carolina Code of Laws, 1976, as amended, among other laws.

To invest all State funds pursuant to statutory authority, including the South Carolina Retirement Systems portfolios which are structured to meet the long-term nature of pension obligations.

Program Objectives: Preserve capital
Maintain adequate liquidity
Obtain the best yield within prescribed parameters

Program Cost: \$578,132 State Funds

FTEs: 11

Objectives identified in the investment of the State's funds are to safeguard principal, maintain appropriate liquidity as required by the account administered, and obtain the highest yield possible with quality investments.

The objective of maintaining appropriate liquidity must be determined by the cash flow needs of the accounts administered. The State Treasurer's cash management techniques provide cash flow projections which allow for the maximum utilization of available funds. All available balances in accounts at the end of a day are invested in collateralized repurchase agreements, federal agency discount notes or commercial paper.

To obtain the best yield opportunities within the guidelines of approved investments, the State Treasurer's Office maintains constant communication with securities professionals and uses on-line securities quotation services. The Treasurer also receives expert advice from an independent investment advisory firm.

Performance Measures:

Workload:

	<u>FY 1996-97</u>	<u>FY 1997-98</u>
General Funds managed (average)	\$ 1,047,914,458	\$ 1,057,101,421
SCRS Funds managed (average)	\$13,549,233,794	\$18,056,234,466
LGIP Funds managed (average)	\$634,267,624	\$698,619,532
Number of investment trades	3,890	3,625

Efficiency:

Return on General Fund investments (cash-basis)	6.26%	6.70%
Return on SCRS investments (accrual basis)	9.48%	10.02%

ANNUAL ACCOUNTABILITY REPORT

Investments (continued)

Outcome:

- Earnings on General Fund investments were \$70,804,916.
- The cash-basis earnings for SCRS funds were \$1,393.7 million.
- The State's Local Government Investment Pool (LGIP) earned a rate of 5.66% as compared to the average benchmark investment rate of 5.17%.

ANNUAL ACCOUNTABILITY REPORT

Priority Rank: Third (critical function)

Program Name: Debt Management

Program Goals: Programs are managed in accordance with applicable State and Federal laws.

Program Objectives: Coordinate communications with bond rating agencies to maximize the State's credit rating.
Manage all debt issues for the State to optimize debt structure.
Assure compliance with legal requirements.
Serve as trustee on some bond issues

Program Cost: \$240,593 State Funds

FTEs: 4

Performance Measures:

Workload:

	<u>FY 1996-97</u>	<u>FY 1997-98</u>
New GO bond issues closed	6	5
New Revenue bond issues closed	4	6
New Inter-Governmental debt issues closed	2	2
Indebtedness issues on Debt Management System	127	139
Bond issues refunded/defeased	7	12
Debt payments		
General Obligation bonds	\$155,413,169	\$162,736,482
Revenue bonds	\$57,986,300	\$101,612,925
Inter-Governmental	\$14,728,896	\$8,574,936
Outstanding debt		
General Obligation bonds	\$1,050,450,800	\$1,033,489,400
Revenue bonds	\$283,852,575	\$283,221,805
Inter-Governmental	\$60,837,487	\$56,238,175
Number of Capital Improvement Projects draws and refunds	3,192	2,835
Amount of Capital Improvement Projects draws and refunds	\$164,088,340	\$156,868,197
Number of Housing Authority and Education Assistance Authority daily transactions	2,634	1,787

ANNUAL ACCOUNTABILITY REPORT

Debt Management (continued)

Outcomes:

- All debt payments were promptly made and all arbitrage guidelines were certified as being followed.
- All agency requests to draw bond proceeds were processed within 24 hours of receipt.

ANNUAL ACCOUNTABILITY REPORT

Priority Rank: Fourth

Program Name: Unclaimed Property

Program Goals: Program is managed in accordance with Sections 27-18-10 through 27-18-400 of the South Carolina Code of Laws, 1976, as amended, among other laws.

To administer the State's Unclaimed Property Program

Program Objectives: Process receipt of unclaimed funds from holders.
Payment of funds to rightful owners.

Program Cost: \$560,803 Other Funds

FTEs: 3 (also utilized an average of 10 part-time staffers during FY 1997-98)

Performance Measures:

Workload:

	<u>FY 1996-97 (1)</u>	<u>FY 1997-98</u>
Received from holders	\$10,300,000	\$26,492,000
Claims paid	\$ 3,525,000	\$ 4,709,000

Efficiency:

Claims paid/FTE	\$ 1,175,000	\$ 1,569,000
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Outcomes:

- The total dollar amount of claims paid to the citizens of South Carolina during FY 1996-97 and FY 1997-98 surpassed all previous amounts paid for any fiscal year by the Department of Revenue.

(1) Claims paid by the State Treasurer's Office were approximately \$3.0 million

Awards and Achievements:

The State's Unclaimed Property Program was recognized as the most effective claim processing unit in the nation by the Unclaimed Property Holder Liaison Council. The award was presented at the National Association of Unclaimed Property Administrators annual meeting in September, 1998.

ANNUAL ACCOUNTABILITY REPORT

Priority Rank: Fifth

Program Name: Information Technology

Program Goals: To maintain existing Information Technology infrastructure and enhance operating systems required to allow effective performance of the State's Investment, Banking and Treasury, Debt Management, and Unclaimed Property programs.

Program Objectives: Provide technical support for the Investments Management System, Financial Management System, Debt Management System, and Wager's system for the Unclaimed Property Program.
Generate checks and electronic funds transfers.
Provide technical support for State Treasurer's Office Local Area Network.

Program Cost: \$740,471 State Funds

FTEs: 12

Performance Measures:

Workload:

	<u>FY 1996-97</u>	<u>FY 1997-98</u>
Checks produced	3,903,801	3,698,827
EFT forms produced	1,044,165	1,019,601
Financial Data Systems CPU processing cost (1)	\$115,269	\$131,264

(1) Rate increase took effect in January 1998, causing the increase in cost for FY 1997-98

Outcome:

- Provided programming and systems support to the Investment Division for transactions processed in the Investment Management System.
- Provided programming and systems support to the Banking & Treasury Services Division for transactions processed in the Financial Management System.
- Provided programming and systems support to the Debt Management Division for transactions processed in the Debt Management System.
- Provided systems support to the Unclaimed Property Division for the detailed subledger of unclaimed funds.
- All checks and electronic fund transfers were processed within required timelines to deliver payroll, income tax refunds, travel, and other disbursements to all State employees, agencies, and citizens.

ANNUAL ACCOUNTABILITY REPORT

Priority Rank: Sixth

Program Name: Administration

Program Goals: To provide administrative support to the State Treasurer's Office operating units.

Program Objectives: Manage internal State Treasurer's Office budget, accounting, and financial operations.
Manage State Treasurer's Office human resources activities
Procure office operating services, supplies, and materials necessary to conduct daily functions.

Program Cost: \$267,084 State Funds

FTEs: 4

Performance Measures:

Workload:

	<u>FY 1996-97 (1)</u>	<u>FY 1997-98</u>
Payroll changes	330	701
Procurements processed	801	1,466
Accounting transactions	1,273	2,509
Employment applications	225	527

Efficiency:

Payroll changes/FTE	165	175
Procurements processed/FTE	400	366
Accounting transactions/FTE	636	627
Employment applications/FTE	112	132

(1) Data for six months only